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STATE FOR DEPUTY SECRETARY ZOELLICK

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SUBJECT: DEPUTY SECRETARY ZOELLICK'S MAY 10 MEETING WITH
PRIME MINISTER LEE HSIEN LOONG

1. (U) Classified by: Ambassador Franklin L. Lavin. Reason
1.4(d)

2. (U) Date Time and Place: May 10, 2005, 11:30AM, Istana,
Singapore

3. (U) Participants:

U.S.

The Deputy Secretary
Ambassador Franklin Lavin
DAS Marie Huhtala, EAP
D Executive Secretary Ross Wilson
Deputy Spokesman Adam Ereli
D Special Assistant Chris Castro
D Special Assistant Christine Davies
Chris Kavanagh (Embassy Notetaker)

SINGAPORE

Prime Minister Lee Hsien Loong
MFA Second Permanent Secretary Bilahari Kausikan
PM's Principal Private Secretary Ong Ye Kung
PM's Press Secretary Chen Huai Liang
MFA North America Branch Director Simon Wong
MFA North America Branch Assistant Director Lee Chong Hock
(Notetaker)

4. (C) Summary: During their May 10 meeting, the Deputy
Secretary and Prime Minister Lee Hsien Loong discussed

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developments in China, Southeast Asia and Iraq. PM Lee
reviewed China's growing influence in the region and the
improvement in the cross-Straits situation over the last
year. Turning to Southeast Asia, he said Indonesia was
making the right noises about tackling corruption, but
there had been little progress. PM Lee complained that
Indonesia should pursue terrorist infrastructure rather
than just individual terrorists. Singapore's relations
with Malaysia had improved, but the long-term rise of an
Islamic identity in Malaysia was a concern. The Deputy
Secretary noted the progress in Iraq and the commitment by

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the courageous new government to deal comprehensively with
the insurgency. End Summary.

5. (C) Opening his May 10 meeting with Prime Minister Lee,
the Deputy Secretary said he wanted to make a trip to
Southeast Asia early in his tenure to gauge developments in
the region and listen to leaders, views on issues of common
concern. Prime Minister Lee told him that U.S.-Singapore
bilateral relations were good and trouble-free. The
Strategic
Framework Agreement talks were almost complete and he hoped
that it would be signed in July, when he hoped to visit the
United States.

Rise of China

6. (C) China was active in Southeast Asia and its influence
was particularly noticeable -- not militarily but
strategically and economically, commented PM Lee. Its
leaders came prepared to regional meetings, such as ARF and
APEC, with small "goodies" to make sure its partners knew
that China was thinking about them. China was building
friendships, securing access to natural resources, and
avoiding troubles. It had been most successful in
Indochina. All the countries in Southeast Asia wanted to
have good relations with China and recognized its
importance.

7. (C) The cross-Straits situation had improved considerably
since last year, when it had been quite tense, the PM
continued. The Anti-Secession Law and the visits to the
PRC by Taiwan opposition leaders Lien Chan and James Soong
had helped put President Chen Shui-bian in a corner.

Furthermore, people of Taiwan were tired of cross-Strait tensions and did not want to lose economic opportunities in China.

Japan's Reaction

18. (C) Asked about Japan's response to changes in the region, PM Lee responded that it had been too preoccupied with its own internal economic problems. It had made progress in addressing its banking sector problems and Singapore had noted a recent increase in Japan's investments in the region. He thought that Japanese firms were diversifying out of China. In response to domestic political pressure, Prime Minister Koizumi had taken a nationalist line with China, observed PM Lee.

Indonesia

19. (C) Indonesia and China had always had a complex relationship, noted PM Lee. There had been clashes in the past and Indonesia saw itself as the dominant power in Southeast Asia. Concerned about China's influence in an exclusive East Asia Summit, Indonesia had argued that India should be included. At the same time, Indonesia saw significant economic opportunities in the China market. China was interested in "courting" Indonesia and securing access to energy supplies. The Deputy Secretary commented that President Yudhoyono appeared to want a more active role for Indonesia in ASEAN. PM Lee said President Yudhoyono had a good view of the external environment and recognized that ASEAN had to work together in the face of a rising China and India. He had difficulty, however, placing greater ASEAN economic integration ahead of narrower nationalist economic interests.

110. (C) President Yudhoyono was making the right noises about tackling corruption and promoting economic development, observed PM Lee. He was uncorrupt, but his ministers had "varied" reputations and there had not been a drastic improvement in the corruption climate. The President would have to be personally engaged on this issue to make progress, but he was moving cautiously. Multinational firms would not invest in Indonesia, because it was too difficult to operate there and there were more attractive options elsewhere, notably China.

111. (C) According to PM Lee, Indonesian Vice President Jusuf Kalla was positive the GOI would reach an agreement with the Acehese separatists (GAM). The GAM had shifted its focus from independence to autonomy and now both sides needed to find a face-saving formula for a settlement. PM Lee said it would also depend on the attitude of the Indonesian Armed Forces (TNI). Asked about security reform in Indonesia, PM Lee said it would take time to divest the TNI of its business interests. It would also require a large increase in the military budget to ease the transition, but he did not think that was likely to happen, suggesting the reforms will be incremental and incomplete.

Limits on CT in Indonesia

112. (C) PM Lee said that when a terrorist committed a bombing attack in Indonesia, the authorities would arrest and charge the individuals involved. The GOI would not, however, pursue their infrastructure and support networks, complained the PM. Indonesia allowed many extremist groups to operate openly because they were not seen as a threat to the state and enjoyed public sympathy.

Relations with Southeast Asia

113. (C) PM Lee commented that Malaysian Prime Minister Abdullah Badawi had set a new tone in bilateral relations with Singapore and wanted to solve problems, unlike his predecessor. At the same time, Badawi had good Islamic credentials, which gave him some leeway domestically to deal with the Islamic party (PAS). Badawi was confident that Malaysia would not turn into a radical Islamic state. Over the last 15-20 years, however, the underlying situation had shifted, cautioned PM Lee. The Islamic identity of Malaysia had become more pronounced than the Malay and many Malaysian students had returned from studying in Pakistan, Iran, and Saudi Arabia with a more radical conception of Islam.

114. (C) PM Lee expressed his concern over the violence in southern Thailand. Although it had not yet happened, outside groups such as Jemaah Islamiyah could take advantage of the separatist violence and turn it to their

own ends. The cleft between the south and the rest of the country was deep and the police had done a poor job of maintaining control.

¶15. (C) Turning to Vietnam, PM observed that its leadership was keen to move forward and develop the economy. Vietnam was making a series of incremental reforms and lacked the major strategic change of direction that Deng Xiaoping gave China. Vietnam wanted to join the WTO, but had difficulty fulfilling its requirements.

Iraq

¶16. (C) The Deputy Secretary thanked Singapore for its support on a range of issues of importance to the United States. He noted that he had recently visited Iraq and the new government had been formed by very courageous people. They understood what was at stake in creating a new democracy and were willing to meet the challenges. It would take a combination of political, economic, and military means to defeat the insurgency. He remarked that the elections in Afghanistan, the Palestinian Authority, and Iraq signaled momentous changes in the region and reminded him of the dramatic changes in Eastern Europe in ¶1989. PM Lee commented that the Iraqi elections were a great triumph and undermined the reasons for an insurgency. At the same time, he urged the United States to do more to "lower the temperature" between Israel and the Palestinians, since it had an effect on Muslims in Southeast Asia, including Singapore. The Deputy Secretary noted the President and Secretary's interest in an Israeli disengagement from Gaza as well as our Broader Middle East and North Africa Initiative.

LAVIN